

COPY

HOUSING AUTHORITY OF THE  
CITY OF NEWARK  
52 Sussex Avenue  
Newark 4, New Jersey

Misc.

Explanation of audit

March 3, 1947

Hon. Vincent J. Murphy, Mayor  
City of Newark  
New Jersey

Dear Mayor Murphy:

The members of the Housing Authority have studied and discussed the report of Puder and Puder on their audit of the books of the Authority. In the following pages, we have attempted to give you a full and complete explanation of each of the matters considered by the auditors.

We appreciate the opportunity that you have afforded us to make these explanations. It is consistent with your long-standing support of public housing and with the great expenditures of time and effort you have made in behalf of better housing conditions.

We were also impressed with the thoroughness and dispatch with which the auditors performed their assignment. They were confronted with the enormous task of attempting to analyze transactions made under the wartime maze of laws, regulations and policies which were amended, extended and suspended as circumstances required. In spite of these difficulties, they have succeeded in presenting to you and to us a number of recommendations which will be helpful in our future operations.

We attempted to assist the auditors by making all our records available to them and by instructing all our employees to give them any information they requested. Nevertheless, the audit report states that in a few instances records were not available. We find that these records are available and conclude that they were not found by the auditors because their inquiry was misunderstood or was directed to someone who did not have complete information.

Furthermore, it was not until we saw the audit report that we realized how the cold record of accounts might be misunderstood when separated from information about general conditions existing at the time when that record was made. Regrettably, this has resulted in a number of misunderstandings and mistaken conclusions which we hope to clear up by the explanations which follow under headings similar to those in the audit report.

#### PAYMENTS IN LIEU OF TAXES:-

Although the audit report makes no reference to "dwindling payments" to the City by the Housing Authority, a statement has been printed in the newspapers to the effect that payments in lieu of taxes by the Housing Authority totaling \$122,600 in 1944, dropped to \$104,114 in 1945 and \$76,605 in 1946. These "dwindling payments" were cited as the reason for the audit.

The Housing Authority finds that the figures used by the newspapers apparently included some payments made to the City by the Federal government under a separate contract between the government and the City respecting Bradley Court, which is not one of the low-rent projects owned by the Housing Authority and that the figures attributed to 1944 included Federal payments covering the years 1942 and 1943, as well as a payment for 1944. The amount attributed to 1945 incorrectly included a Federal payment on Bradley Court for that year but the figure for 1946 represented only the payment by the Housing Authority and did not include the Federal payment for the year 1946 although this latter payment was made last May.

In other words, the whole picture of the Housing Authority's payments was thrown out of focus by the inclusion for 1944 of Federal payments covering three years and by the omission of the Federal payment in 1946.

The following table shows correctly the payments by the Housing Authority and by the Federal government and the years to which they applied:

BY YEAR TO WHICH PAYMENTS APPLIED

<u>Year</u>	<u>N. H. A.</u>	<u>F. P. H. A.</u>	<u>Totals</u>
1942	\$ 14,482.40	\$ 27,413.15	\$ 41,895.55
1943	26,357.47	28,974.38	55,331.85
1944	19,179.68	27,775.13	46,954.81
1945	77,051.35	29,009.42	106,060.77
1946	<u>76,605.23</u>	<u>30,956.60</u>	<u>107,561.83</u>
	\$ 213,676.13	\$ 144,128.68	\$ 357,804.81

The table below shows payments by the Housing Authority and the Federal government by the year in which they were made:

BY YEAR IN WHICH PAYMENTS WERE MADE

<u>Year</u>	<u>N. H. A.</u>	<u>F. P. H. A.*</u>	<u>Totals</u>
1942	\$ 8,058.38	\$ —	\$ 8,058.38
1943	15,469.69	—	15,469.69
1944	30,897.89	91,702.89**	122,600.78**
1945	82,644.94	21,469.19	104,114.13
1946	<u>76,605.23</u>	<u>30,956.60</u>	<u>107,561.83</u>
	\$ 213,676.13	\$ 144,128.68	\$ 357,804.81

\* F.P.H.A. payments do not include payments made to the county, state, local Board of Education and the State Board of Education.

\*\* Includes three-year payment by F.P.H.A. on Bradley Court.

The observation made in the audit report about which we are most concerned is the statement that the City of Newark was not fully paid in accordance with its contract with the Housing Authority for payments in lieu of taxes. The fact is that the City was paid by the Housing Authority more than three times the amount required by the contract.

This contract, entered into in August 1938, provided for the payment to the City by the Housing Authority of three per cent of the shelter rents received from its low-rent projects. At the time the contract was made, the Authority planned to charge rents averaging from \$19.55 to \$25 a month including a utility charge averaging \$6.45 a month, leaving shelter rents of between \$13.10 to \$18.55 per dwelling unit per month, depending on the project. If the average of all shelter rents had been \$16, the City might have expected to receive a total of \$15,175 annually on our present program of 2,432 units. But the City actually received \$76,605 in 1946 from the Housing Authority.

Soon after the program was started, the inequities of the flat rent schedule were seen and the Authority adopted the graded rent system, under which families paid according to their income. This resulted in an increase in rental income which increased the payments to the City. When the war started and it was necessary for the Housing Authority to use a total of 527 dwellings in Hyatt and Fuld Courts to house essential war workers, the Authority's rents increased because of the higher incomes of the war workers, and the Authority felt that the City should receive a higher payment in lieu of taxes.

Upon the urging of the Newark Authority and other local housing authorities, the Federal government permitted the local authorities to make additional voluntary payments to the cities up to the point where the whole payment did not exceed ten per cent of the shelter rent. The Newark Housing

Authority immediately exercised this permission to the full extent allowable and passed a resolution to pay the City on a ten per cent basis. Down to this date it has followed this procedure, so that in 1945 the City received \$77,051 and in 1946 the payment was \$76,605. These payments represent approximately the amount of taxes which the City was levying, but not always collecting, from the private owners of the sites acquired by the Authority. As long as the Authority is unable to evict its higher income tenants, the total rental income will remain high and the payments to the City will continue on the high level of 1945 and 1946.

The audit report states: "If the City of Newark is to be paid in accordance with its contract, then the City of Newark was not fully paid." This statement is based on what the report considers an "inconsistency" between the wording of the contract and the Federal Public Housing Authority's definition of shelter rents.

The contract defines shelter rents as "(being the total of all rents chargeable, excluding the charges for utilities such as heat, electricity, gas and water)....."

The F. P. H. A. in its manual defines "actual shelter rents as used in this order shall mean the total of all charges to all tenants for dwelling rents and non-dwelling rents (excluding furniture rentals and all other income), less the cost of all utilities....."

The "inconsistency" is not apparent to members of the Housing Authority. "Charges" may be understood to mean the same as "costs" in the F. P. H. A. definition, and it is a fact that this is the way it has been understood by both the Authority and the City from the beginning. It has always been the policy to include the "cost" of utilities in the gross rental "charged" to tenants. One of the means of achieving low housing costs, as contemplated in the housing program, is the purchase of utilities at wholesale rates and the inclusion of these utilities in the rent. Under the Utilities Law the Authority is not permitted

to buy utilities at wholesale rates and then sell them to the tenants through individual meters. We may, therefore, assume that "the cost of utilities is a proper deduction," an alternative suggested in the report.

The Housing Authority repeats what must be evident to anyone who reads the contract: The City of Newark has been fully paid according to the terms of its contract with the Authority. This is true regardless of what interpretation is placed on the alleged "inconsistency" between the wording of the contract and the Federal Public Housing Authority's definition of shelter rent.

#### DWELLING RENT INCOME:-

With reference to dwelling rent income, the audit reports that a test check showed aggregate rents charged, as shown by the rent registers, was in agreement with the amounts set forth on the table, Exhibit A, taken from our books. However, the report notes that the records on rent charges and income checks are not complete in all cases.

This is true but these cases fall generally into only two classes (1) "income of a family when a man entered (military) service" as noted in the report and (2) the income of families which are being charged the highest rent permitted under OPA ceilings. In the case of families of servicemen, rents are based on standard pay and allotment tables for the armed services. In the case of a few families whose income has risen until they are being charged ceiling rents, complete information was not obtained at the time of the income checks since higher rents could not be charged and the value of such data is largely statistical. This consideration also applies to the fact that a continuous record of "employment and unemployment for all the time he (the tenant) is a resident of the project" is not always maintained when it does not affect the rent to be charged.

The report states that monthly cash receipt summaries, signed by the manager and submitted to the central office, were not available for inspection at one project. Since complete sets of these reports are available at the central office and duplicate sets are available at every project, we do not understand how this misunderstanding arose.

A tabulation of rent delinquency is given in the audit report. While no conclusions are drawn from these figures, it seems worth while to comment on them.

The rent delinquencies of \$8,181 and the bad debts of \$2,185 together amount to 1% of the annual rental income of the Authority. However, neither the rent delinquency nor the bad debts are uncollectible. In fact, the rent delinquency, which accumulated during the unsettled period of post-war reconversion, is being rapidly collected. Absence of rent delinquency might indicate that the Authority's policy on rent adjustments was too lenient and, on the other hand, the existence of the current delinquency indicates that the Authority has charged rents up to the full rent-paying ability of the tenants. The amount described as "bad debts" is delinquent rent which has been discontinued as an account receivable although the Authority's counsel continues to pursue legal process to collect it.

#### INCOME CHECKS:-

Another matter that the report considers as affecting the payment to the City, is that the Authority did not make rent increases retroactive to date of income checks and did not make regular income checks.

It is true that rent increases were not retroactive but it is also true that rent decreases were not retroactive. Regular income checks were made, except during the period of outbacks and reconversion at the end of the war.

Income checks are made once a year and the income of the whole family of a tenant is estimated for the coming year. This estimate is based not only on current income and the past year's income, but also on general conditions with respect to wages and overtime, and conditions in the specific industries or jobs of the tenants, the work record of past years, and other factors. The rent is fixed for the year on the basis of the estimated income. If a sub-normal income condition prevails at the time of the income check, a temporary rent is set and the tenant is obliged to report his income periodically. When his income situation returns to normal, his rent is set for the balance of the year. Rent reductions are not granted during the year except in hardship cases resulting from loss of a job, long illness or other circumstances that would cause the estimate to be far out of line.

Even when these decreases in rent are granted they are temporary, stand only from month-to-month and are subject to revision upward. On the other hand where the tenant has made a statement in good faith of the past, current and probable future income of his family and we have estimated his coming year's income and set the rent accordingly, no change is made until the next income check.

It has been the experience of the Federal Public Housing Authority and of the Newark Housing Authority that practical results do not justify income checks more frequent than once a year. However, a review of rent policies by the Federal Public Housing Authority has been in progress for several months and revised procedures may result from this survey.

A tenant in public housing is legally entitled to advance notice of a rent increase just as in private housing he is entitled to, and receives, similar notice. An income check is started, for example, on January 1st. The tenant files an "Application to continue in Occupancy" in which he details the status



and employment of every member of his family, hourly rates of pay, weekly, monthly or annual wages, hours of work, overtime, and other sources of income. This is checked through the employers, the Unemployment Compensation Commission, the Social Security Board and other sources. The information is checked with previous statements of the tenant and the wage rates are compared with other tenants in similar jobs and with information on wage rates obtained from the personnel departments of industries in this area. The compiling, comparing and analyzing of the information for a project takes from five to seven weeks. At the end of February or the first of March, a month's notice is given to the tenant as required by his lease advising him of the rent he must pay beginning April 1.

Charging rents retroactively, even if legal and desirable, would not have altered the fact that the City was paid more than was called for under the contract with the Housing Authority.

As to the report's conclusion that the Authority "did not make regular income checks" the facts are that all income checks were made on the average of every twelve months with the exception of those due in three projects in the Summer and early Fall of 1945 and those were postponed from month to month, with the approval of the Federal Public Housing Authority, and after due consideration and consultation with other Housing Authorities, until the Spring of 1946.

The reason for the postponement was the unsettled conditions in industry following the end of the war with Germany in May and the end of the war with Japan in August at the time when these income checks were due. In view of cutbacks in war orders and consequent elimination of overtime, hundreds of lay-offs, and downgrading in jobs, it was impossible to conduct an income check that could serve as a basis for estimating the coming year's incomes and rents. An income check of tenants with no income was deemed futile and impossible, and was not to the benefit

of the Housing Authority or of the City. So it was decided that rents would be frozen as far as reductions were concerned for at least two months until conditions became more settled and future prospects more clear. Tenants who could not pay were carried as delinquents, and the only reductions that were made, were in hardship cases where a "substantial decrease" in income was of a permanent nature.

That the Authority's decision was a wise one is proved by the fact that in one project where there were 300 requests for reduction immediately after V-J day, two months later two hundred of these requests had been withdrawn and many of the others were put on a temporary rent basis only for a month or two.

Again, it is evident that the Authority and the City of Newark benefited rather than lost by postponing these income checks.

#### TENANT SELECTION:-

In commenting on tenant selection procedures, the report states that "The tenant was formerly given a point score depending on the standard of the house in which he lived. This system was discontinued..... The present practice is to give an arbitrary score of 75 points.....etc.," for housing need.

In this connection, it is important to note that the procedure was changed for the purpose of waiving for low-income veterans (who are completely homeless) the former requirement that eligible applicants must be living in sub-standard dwellings. Since veterans have preference among applicants and since substantially all vacancies are now filled with veterans' families, the housing need score is now inapplicable.

Commenting on tenant selection policies, the audit report states:

"In various cases, families were admitted whose income exceeded the limit allowed for admission."

Without particulars, it is difficult to answer this comment, unless it is intended to apply to Felix Fuld Court and Hyatt Court. These projects were used to house war workers and the low-income limits did not apply in the cases of essential war workers certified by a government agency.

The report also states "Some families who were approved as a tenant in Hyatt Court were placed in other projects because Hyatt Court was completely occupied at the time. Their residency was to be of temporary nature only and they were to be transferred to Hyatt Court when apartments became available there. These families are still residing at the original projects....."

There was one such case which happened under the following circumstances: We leased an apartment at Hyatt Court to an essential war worker whose furniture was in Vermont. The day his furniture arrived, the tenant who was to have moved out of Hyatt Court refused to do so and we were obliged to place the new tenant in another project. This tenant has not since been transferred to Hyatt Court because, before an apartment of suitable size became vacant, the War ended and Hyatt Court became and is now considered just as much a low-income project as the one where this tenant is living. He is ineligible in either project and has been so notified. He is subject to eviction as soon as the emergency and the OPA permit.

The report cites one case in which the income reported by the tenant's employer exceeded the maximum allowed for that particular sized family and did not agree with the Authority's computations. We found that in this case the computations were incorrect, and have taken corrective measures.

The report also found that we have project employees living at the projects whose income at admission was above the income limit. This is true but it is no violation of the regulations which exempt from the income limits "such employees of the Authority as it, with the approval of F. P. H. ..., may

require to reside in the project for the proper administration thereof." In a few cases, it was necessary for the operation of the projects to have an employee living there and, in these instances, the income limit did not apply. However, these tenants were charged higher rents in proportion to their incomes.

#### FUEL PURCHASES:-

Bids were originally requested in September 1942 for the delivery of part of a year's supply of coal to all projects. As stated in the audit report, the contract was awarded in October to the International Coal Company the lowest bidder among those whose bids were properly submitted. The report further states that "no effort was made to get the others (the bidders whose proposals were not in satisfactory legal form or did not meet the bid requirements) to correct their bids." The Authority does not understand how this suggestion could have been adopted without tampering with the bidding procedure and probably involving the Authority in a law suit.

The report comments on an added provision of the contract permitting the bidder to charge 25 cents per ton for storage up to 1,000 tons. This provision was made in the best interest of the Authority because of the lack of coal storage facilities but, since the provision was not used by either party to the contract, and no funds were expended under it, this comment is academic.

It is true, as the auditors state, that in April 1943, at the end of the first contract, letters were sent by the Authority to various coal companies requesting new bids. There was no response to these requests, because of prevailing conditions growing out of the war, OPA price control and government restrictions on coal purchases and deliveries, such as the Fuel Administration instructions to dealers not to accept new customers. Consequently, the Authority continued the coal contract with the same company. This was done in the best interest of the Authority.

In March 1945, when it was still uncertain as to when normal coal purchases and deliveries could be resumed, the Authority by formal resolution recognized the emergency and again authorized a new coal contract with International at a price below the prevailing OPA ceiling with a provision that if OPA granted increases the Authority would pay these increases but that the differential between OPA ceilings and the contract price would be maintained.

The audit report contains the following statement;

"No explanation was forthcoming explaining the need for contracting to purchase 16,000 tons of coal for the fiscal year ended March 31, 1946 when experience for the year just ended at the granting of the contract (fiscal year ended March 31, 1945) a total of approximately 14,000 tons of coal was consumed." The report also states: "The Authority apparently overbought coal in the fiscal year ended March 31, 1946."

The estimate of 16,000 tons of coal to be required for heating during the 1945-1946 season was based on the experience in 1944-1945 but also took into account two essential considerations (1) that degree-days in 1944-1945 were below normal and (2) that the results obtained in that season were unsatisfactory.

The number of degree-days in 1944-1945 when 14,000 tons were consumed was about 5,000 whereas the average for this area is about 5,400 degree days. On this basis alone, it was reasonable to forecast the consumption of an additional 1,000 tons of coal in 1945-1946 in the expectation that it would be an average winter. Actually, however, in the 1945-1946 season the number of degree-days was even less than 5,000 with the result that this additional tonnage was not consumed.

The unsatisfactory results obtained in the 1944-1945 season from using coal in a heating system designed for oil were shown in numerous complaints by tenants that inadequate heat was being furnished. It was also apparent that some tenants were using gas and electricity to supplement the heat provided, with a

consequent increase in gas and electric consumption. It must be remembered in this connection that most of the tenants were war workers at that time, that many were working at night or on irregular shifts and that their reasonable comfort was important to the national defense. For all these reasons, it was decided to increase the heating hours in cold weather, from 16 hours in 1944-5, to 18 hours in 1945-6. On this basis, it was reasonable to forecast the consumption of an additional 1,000 tons of coal in 1945-6. Actually, this estimate turned out to be reasonably accurate in spite of the fact that increased efficiency, resulting from experience in operating with coal, tended to reduce consumption. X

A fair appraisal of the soundness of the forecast of coal requirements made in March 1945 must also take into account the fact that the War, both in Europe and in Asia, had not ended, that the War in Asia was expected to last two years more, and that reconversion from coal to oil was still in the unforeseeable future. In the light of these circumstances, the decision to contract for 16,000 tons was an exercise of prudent judgment. There remains on hand an estimated 1,200 tons of coal for all six projects of which about 1,000 tons are to be attributed to the deviation of degree-days from normal. In any case, the total on hand amounts to about 12 days' consumption.

The report states that in February of 1946 it was known that the boilers were to be converted to oil, and points out that the Authority continued to accept coal deliveries, although it had 2,000 tons on hand.

The fact is that the Authority did not know in February that the burners could be converted to oil before the next heating season. In March bids were received, and rejected because prices were far beyond the engineer's estimates X and because of protests against the form of the specifications. An attempt to get bids in May also failed. Specifications were drastically revised but it was not until June 21 that new bids were taken. On July 2, the contracts were awarded

and by August 11, two boilers had been converted in Pennington Court and two in Fuld Court. Although the work was to have been finished by September 1, it was necessary to grant the contractor an extension of time. The conversion was substantially completed on October 10.

The fact remains that from February to September, the Authority was still uncertain about the possibility of reconversion to oil because of unsettled material, labor and price conditions prevailing as an aftermath of the War. For a time, before the contracts were finally awarded, the possibility of postponing the reconversion to the Summer of 1947 was seriously considered.

Nevertheless, while the conversion was being discussed, the Authority instructed its executive director to attempt negotiations to terminate the contract with the coal company. The coal company refused to cancel because of its own commitments. Then, because of the uncertainty that the conversion would be effected in time for the heating season, it was decided to accept delivery of the remainder of the coal due on the contract. When the conversion was complete, the surplus coal at the various projects was transferred to one stockpile at Baxter Terrace. The Housing Authority feels that it acted prudently in accepting coal deliveries when the conversion was not an accomplished fact.

The question has been raised as to whether the coal met specifications. Analyses of the coal were made regularly by the Newark Testing Laboratories and reports were submitted to the Authority that specifications were fully met. It is true, that in some cases the analyses showed the ash content of the coal to be above the 13 per cent permitted in the specifications. The specifications, however, also provided: "The Authority may waive the penalty on coal shipped from the source of supply authorized under the contract, provided general performance under the contract has been satisfactory and that only a small portion of such coal has been inferior to the contract standard; and provided that the

average of all authorized coal delivered to that particular contractor does not fall more than 1% below the contract standard as to ash and B.T.U.'s."

General performance under the contract was satisfactory. The contractor was warned when inferior coal was delivered and threatened with cancellation of the contract; the contractor offered to accept cancellation, but the Authority, because of the difficulty of securing a new source of supply, was in no position to make good its threat. It was in the same position that many business houses and individuals were in because of the War. It had to overlook, in some instances, the lowering of quality standards, just as the coal contractor was faced with the same situation in regard to deliveries from the collieries. It was a case of "There's a war on; take it or leave it." Furthermore, O.P. rulings authorized increases in ash content as well as price increases and the Authority had to accept substitutions when the specified grade was not obtainable.

In view of all these circumstances and of the conditions then prevailing, and being satisfied that the contractor was trying to live up to his contract, the Authority did not avail itself of the penalty clause. It had to be satisfied to get an adequate supply of good coal, as needed.

As to the statement in the audit report that the coal inventory records were not properly maintained, it must be understood that this does not refer to coal deliveries but only to the Authority's internal records of coal consumption at particular projects. These records had to be based on rough estimates made by visual inspection of the size of the outdoor pile remaining at the end of each month. The Authority had no means of weighing or accurately measuring the coal as it was consumed. Weighing equipment for this purpose was not available and, if it had been, the purchase of such equipment was an unwarranted expense since the use of coal was a temporary expedient. There were no standardized bins by which to measure consumption. Monthly consumption figures were at best guesses or estimates that had to be adjusted from time to time to conform to known totals.



In the absence of weighing equipment, the Authority depended partially on the weighmaster's seal for the accuracy of records of coal delivered and also arranged for independent spot checks by the City Sealer of Weights and Measures. Except for these arrangements, it is true as stated in the report that the Authority had no independent means of verifying the complete accuracy of the quantity of coal delivered, due to circumstances beyond its control.

With reference to the table of tonnage of coal consumed given in the audit report, it is to be expected that variations in consumption, from project to project, will result from differences between projects in size and type of construction, and even from differences in living habits of tenants. Also, where heating costs per unit are low, it is found that the consumption of other utilities is high.

Suggestions of the audit report for improvement in the Authority's methods of checking oil deliveries are receiving consideration by the Authority although the Authority is now paying only for oil delivered. The amount on the delivery ticket is the amount delivered at the project and not the amount loaded at the company's yard or refinery. Accurate measurement for variation in temperature has not been made, however, and we agree that it would be better practice to take into account temperature variation as has been suggested by the report. We have taken steps to put into effect this recommendation.

The audit report contains a table comparing the amount and value of purchases of coal in August, September and October of 1945 with purchases of oil in August, September and October of 1946. As is to be expected, the purchases of coal were high during these months because of the unlimited open air storage space and directives by the government to order and take delivery on coal before the start of the heating season. The purchases of oil for the corresponding period are low, as is also to be expected, because oil is purchased only as consumed and storage is limited by tank capacity.

HEATING LABOR:-

Another matter mentioned in the audit report is that the "Authority did not keep adequate payroll records to substantiate charges of labor to heat." To avoid any possible misunderstanding, it seems worth while to note that the "payroll" records referred to are not records by which employees are paid but are cost accounting records by which labor charges are distributed to the proper accounts.

The Authority considers that its payroll records are adequate and that charges to heating labor are well substantiated in its cost distribution records. Daily records of time worked and hourly charges by classification of accounts are maintained and are certified by supervisory employees.

In this connection, the audit report breaks down the heating labor charges on one project for the month of March, 1946, and shows that half of the costs were for firemen and the remainder for repairmen, cleaners and helpers, a landscape foreman, temporary laborers and office help. "From the foregoing analysis" the report states "it is evident that, with exception of firemen, the duties of the other labor charged....would have to be substantiated."

If a month outside of the heating season had been selected it would have shown firemen charged to grounds, janitorial, structures or other accounts because when there is no work for them in the heating plant they are used elsewhere. Conversely, during the heating season, landscape men and repairmen are used to supplement the firemen for relief, cleaning, carting coal and ashes, oiling, etc. Because of the makeshift arrangements made necessary by the use of coal in heating plants designed for oil, considerable labor was needed, in addition to the firemen, for the handling of the storage of coal, the transporting of coal by wheel-barrow to boiler rooms without coal storage bins, and the removal of ashes, etc., without automatic equipment.

The audit report states that it was "noted that in some cases the signature of the employee on the time sheet and the endorsement on his payroll check were not identical." The authority has carefully checked this point.

It is found that again the "time sheet" referred to is a cost accounting record of labor distribution which is made and signed by supervisory employees. The workers' signatures in question are unnecessary on this record and cannot always be secured conveniently in the case of workers moving from project to project. It has been decided to eliminate the worker's signature from this labor distribution record.

#### UTILITY CONSUMPTION:-

Another factor which the report cites as affecting the payment in lieu of taxes to the City is the fact that the Authority did not charge tenants for "excessive consumption of gas and electricity." In several places in the audit report, it is implied that the payments to the City could have been increased by making additional charges to the tenants for gas and electric consumption in excess of the amounts, stated in the lease, which "the management agrees to furnish without additional charge."

The conclusions in this section of the report are not substantiated because of mistaken assumptions. For example, the report assumes that all the electricity purchased by the Housing Authority was consumed by the tenant families and that the amount beyond the "allowable" is "excessive consumption." Actually, of course, most of what is called "excessive consumption" went into non-dwelling uses such as street lighting; burner, blower and pump motors in the heating plants; washing machines and dryer fans; lighting for offices, basements, maintenance, storage and boiler rooms; lighting for clinic, child care centers, kindergarten, libraries and recreation rooms; outside building lights and hallway lights which

burn all night. For instance, in one project, Stephen Crane Village, street lighting alone accounted for 28 per cent of the total consumption of electricity and amounted to 84% of what the report describes as "excessive consumption."

as stated above, the Utilities Law does not permit the purchase and re-sale of utilities. However, the possibility of surcharging tenants for excessive consumption of gas and electricity depends on securing check meters to segregate non-dwelling uses and to determine, in so far as possible, the specific amount of excessive consumption. Such meters have not been obtainable for this purpose during the War.

Furthermore, the quantities of gas and electricity mentioned in the lease are prewar estimates based on depression year operation and on the assumptions that the project tenants were families of low-income who had few electric appliances, who had a single wage-earner usually working a day shift, who were not overcrowded and who were paying about \$20 a month in rent. Under wartime conditions in the period under consideration, family incomes had risen and rents had been increased to as much as \$50, more persons were crowded into the dwellings, in many families there was more than one wage-earner and many workers were employed during unusual hours. The result of these changes was increased consumption of electricity and gas, and the Authority's experience in this regard conforms to the experience of private real estate operators.

For all these reasons it has been the policy of the Housing Authority not to make surcharges for utility consumption. However, in anticipation of the return of the projects to low-rent operation for low-income families, the right to make these surcharges has been retained in the leases.

#### PAINT:-

All paint contracts were properly advertised and awards were made to the low bidder as is stated in the report. Answers to bids, including those of the successful bidder, are on file and available for inspection. Laboratory

tests were made of paint in cases where it was not manufactured by nationally known concerns.

Paint contracts went to Ricciardi, the low bidder, in three years, as stated in the audit report. The prices of the various types of paint, the report further states, did not vary in the three years, contrary to experience of rising prices during this period. This is true, but the Authority feels it is not a matter for criticism in view of the fact that the prices it paid were below OPA ceilings and far below "black market" prices. The Authority was fortunate in making advantageous contracts and in securing a steady supply of good quality paint at prices below the market.

The report states that statistics as to paintable areas at the projects were not available. This is true, but such statistics are not used by the Authority. However, number of rooms, room sizes, doors, windows, etc. are available as well as records of painting done and unit costs and these data are used by the Authority in computing and comparing painting costs.

#### POSTAGE STAMPS:-

Stamped envelopes bearing the Authority's imprint are used for most of the Authority's business, but where additional postage is needed, or where postage is required for the mailing of reports, oversized envelopes, etc., the following system is followed: Postage stamps are kept in a safe under control of the chief accountant or his assistant. All mail is routed unsealed to a central desk, where just before closing time, one employee assigned to the job, sorts the mail and puts all items for one addressee in one envelope. Mail is weighed, and where postage stamps are required, the employee requests these from the accountant and only the necessary stamps are issued. Installation of a meter was considered at one time but was decided against because the advantages did not outweigh the costs.

EMPLOYEES' CAR EXPENSES:-

Employees who use their cars on Authority business were formerly paid on a mileage basis, and where the travel was between Central office and the projects or between various projects, according to a set mileage basis, printed on the travel expense slip. Supervisors who authorized the trips certified to the correctness of the vouchers. However, the Authority was not satisfied with the control of mileage and, before the audit, had set up a flat fee basis of paying for employee car use, in cases where the Authority's own motor vehicles can not be used.

TAXES AND ASSESSMENTS--PROJECT 28072 (BRADLEY COURT):-

The report states that a court decision in July 1945 authorized a payment of \$24,555.84 against tax title liens amounting to \$27,355.24 on this property at the time the Federal government took it over, and that the City of Newark is still carrying the balance of these liens, amounting to \$2,799.40, as an open item on its books, although a letter from the legal department stated that the files in this matter were closed.

This section of the report would seem to be one that should be called to the attention of the proper city department for correction.

\$15,000 LOAN FROM CITY:-

Mention is made in the report of a "fund of \$15,000 loaned to the Authority by the City of Newark to be used in connection with the Veterans Temporary Housing Program." With reference to the services of employees charged to this account, the audit report states: "The payroll records do not show how much of the time of these employees was spent on veterans' housing and how much was spent on regular project work. In several instances, its segregation was made on a basis of arbitrary percentages."

From the \$15,000 there was expended for salaries \$12,253.28. All of this was for employees who were engaged full time on the Veterans Temporary Housing program, in finding sites, negotiating leases, supervising grading and filling of sites, and coordinating plans, taking of applications, investigation of applicants and clerical work. None of the salary charges already made against the \$15,000 fund was for employees who devoted part-time to the Veterans program and part-time to the regular program of the Authority. The Authority has a claim of \$1,037.44 for such part-time work in supervising tenant selection and investigations, and these charges were kept on a percentage basis, but this money was paid from our regular funds, not from the \$15,000, and is still to be reimbursed to the Authority by the City. Many other employees worked on the veterans program on their own time and on the Authority time without any charge to the City. These employees included the executive director, the chief accountant and bookkeepers, clerical staff, Superintendent of maintenance and the maintenance staff.

Included in the \$12,253.28 expended for salaries is \$1,587.97 which can be classified as Management expense and is reimbursable from dwelling rents.

#### COMPARISON OF RENT INCOME TO UTILITY COSTS:-

The comparison of Utility Costs to Rent Income, as made in Exhibit A of the report, is not significant for comparative purposes since the rent income from the tenant of public housing cannot be used as a base because it is not the commercial or economic rent. The Federal government by its subsidy makes an additional contribution to the rent income and so does the City in accepting less than normal taxes. Both these amounts should be added before determining the ratio of utilities cost to rent income. The comparison of utilities cost with rent income would be valid only if the rent figure used was the economic rent and not the subsidized rent.

CONCLUSIONS:-

Through the efforts of the Housing Authority and as a result of the War, the payments in lieu of taxes to the City have been as high as possible and far in excess of the amounts contemplated in the original contract.

Viewed with hindsight some of the transactions of the Housing Authority will be found to have varied from what was anticipated but, in the circumstances under which they had to be undertaken, including the changing of the program to embrace housing of war workers and temporary housing for veterans, they represent the exercise of sound and prudent judgment.

Minor errors have been made in keeping records and, in some respects, the accounting procedures of the Housing Authority will be improved as a result of the audit report but none of these items have special significance beyond what is normally to be expected in reviewing the operations of any organization.

Very truly yours,

Rev. William P. Hayes  
Chairman